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Message Text

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ACTION EA-12

INFO OCT-01 IO-14 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-07 CEA-01 L-03 H-02 PA-02 AGR-01 DOE-15
SOE-02 /142 W
----------086290 140916Z /15
R 140820Z AUG 78
FM AMEMBASSY SEOUL KOREA
TO SECSTATE WASHDC 2859
INFO AMEMBASSY TOKYO
AMEMBASSY TAIPEI
AMCONGEN HONG KONG
USMISSION GENEVA

UNCLAS SECTION 1 OF 2 SEOUL 7119

E.O. 11652: NA
TAGS: ECON, EFIN, ETRD
SUBJECT: INDICATORS SIGNALING SLOWDOWN?

REF: SEOUL 6192

SUMMARY: MAJOR INDICATORS, INCLUDING THE BUSINESS WARNING INDEX DOWN BY 0.1 POINT IN JUNE, APPEAR TO FORECAST A DECELERATION OF THE DOMESTIC BOOM. SLOWDOWNS IN INDUSTRIAL OUTPUT, CONSTRUCTION ACTIVITY AND EXPORT GROWTH ARE EVIDENT. THE LATTER HAS BECOME THE PRINCIPAL CONCERN OF THE ECONOMIC MANAGERS AND STRENUOUS EFFORTS ARE BEING UNDERTAKEN TO MEET THE $12.5 MILLION EXPORT GOAL. MORE WELCOME NEWS IS THE DECLINE OF GROWTH FOR THE MONEY SUPPLY AND A DECELERATION IN PRICE INCREASES. END SUMMARY

1. IN CONTRAST TO PREVIOUS MONTHS, EXPORT PERFORMANCE WAS THE PRINCIPAL ECONOMIC TOPIC OVER THE PAST MONTH. EXPORTS IN JULY FELL 0.7 PERCENT FROM JUNE BUT WERE 25.4
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PERCENT HIGHER THAN JULY 1977 AT $1,045 MILLION ($978 MILLION SEASONALLY ADJUSTED). THIS WAS SLIGHTLY UNDER THE $1,050 MILLION TARGET. FOR THE FIRST SEVEN MONTHS EXPORTS STAND AT $6,749 MILLION, UP 26.1 PERCENT OVER THE FIRST SEVEN MONTHS OF LAST YEAR AND REPRESENT 53.9. PERCENT OF THE YEAR'S TARGET. NEVERTHELESS THE DECELERA-TION OF EXPORT GROWTH CONTINUES AND IS BECOMING A MATTER

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OF INCREASING CONCERN. L/C ARRIVALS IN JULY WERE UP SLIGHTLY TO $937 MILLION ($927 MILLION SEASONALLY ADJUSTED) BUT ARE ONLY 19.6 PERCENT ABOVE 1977 LEVELS.

2. SEVERAL FACTORS HAVE BEEN CITED FOR THE SLOWING OF EXPORT EXPANSION: GROWING PROTECTIONISM, INADEQUATE FINANCING, DECREASED PROFITABILITY AS A RESULT OF RISING COSTS (BOTH DOMESTIC LABOR AND IMPORTED RAW MATERIALS), AND THE BOOMING DOMESTIC MARKET. ONE ITEM, LITTLE PUBLICIZED, IS THAT KOREAN EXPORT PRICES HAVE BEEN RAPIDLY RISING; FOR THE FIRST SIX MONTHS THE EXPORT PRICE INDEX IS UP 10.1 PERCENT COMPARED TO 12.8 PERCENT FOR ALL OF 1976 AND 6.5 PERCENT FOR 1977. FOR THE FIRST HALF THE GENERAL TRADING COMPANIES HAD REACHED ONLY 28.9 PERCENT OF THEIR EXPORT TARGET OF $5,406 MILLION. AS A RESULT AN EMERGENCY MEETING WAS HELD JULY 27 BY THE MINISTER OF COMMERCE AND INDUSTRY TO STUDY EXPORT PROMOTION. THE MINISTER IS REPORTED TO HAVE WARNED THAT THE MINISTRY WOULD TAKE "STRONG MEASURES" TO INCREASE EXPORTS INCLUDING READJUSTMENT OF THE EXPORT-IMPORT LINK SYSTEM.

3. DESPITE GOVERNMENT EFFORTS TO PROMOTE HEAVY INDUSTRIAL EXPORTS, ITS GROWTH RATE FOR THE FIRST SEVEN MONTHS AT 27.5 PERCENT IS ONLY SLIGHTLY HIGHER THAN THE 26.1 PERCENT RECORDED BY LIGHT INDUSTRIAL
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PRODUCTS. ELECTRONICS HAS DEMONSTRATED AN EXCEEDINGLY POOR PERFORMANCE TO DATE, UP ONLY 16.2 PERCENT DESPITE RECORD PRODUCTION LEVELS (THE DOMESTIC MARKET IS THE PRINCIPAL CULPRIT HERE). A BETTER RECORD HAS BEEN COMPILED BY MACHINERY (UP 56.3 PERCENT), CHEMICALS (44.9 PERCENT) AND IRON AND STEEL (31.7 PERCENT). FOOTWEAR LEADS LIGHT INDUSTRIAL PRODUCTS EXPORT GROWTH AT 38 PERCENT FOLLOWED BY TEXTILES AT 27.1 PERCENT. FOR THE FIRST SEVEN MONTHS TEXTILES COMPRISE 32.4 PERCENT OF THE TOTAL EXPORTS AND IS DEMONSTRATING SURPRISING VIGOR. THE BEST SHOWING BY A GTC IS THE ICC CORPORATION, A MAJOR TEXTILE AND FOOTWEAR PRODUCER, WHOSE PERFORMANCE HAS ATTAINED 43 PERCENT OF ITS YEARLY GOAL OF $500 MILLION.

4. AS A RESUTT OF EXPORT PERFORMANCE TO DATE THE MINISTRY OF COMMERCE AND INDUSTRY HAS DECIDED TO REVISE DOWNWARD ITS GOALS FOR HEAVY INDUSTRIAL PRODUCTS AND RAISE THOSE FOR LIGHT INDUSTRY BY 10 TO 15 PERCENT.

5. AFTER REACHING NEW PEAKS FOR THE PAST SEVERAL MONTHS, IMPORTS DECLINED 0.3 PERCENT FROM JUNE LEVELS, REACHING

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$1,201 (CIF) MILLION FOR JULY OR 27.7 PERCENT ABOVE THE FIRST SIX MONTHS OF 1977 ($1,260 MILLION SEASONALLY ADJUSTED). IMPORT LICENSES ISSUED ALSO FELL SLIGHTLY BY 1.5 PERCENT TO $1,152 MILLION ($1,177 MILLION SEASONALLY ADJUSTED) BUT REMAIN 45 PERCENT ABOVE THE FIRST SEVEN MONTHS OF LAST YEAR. ALL CATEGORIES OF IMPORT GOODS HAVE SHOWN GOOD GAINS THIS YEAR. ESPECIALLY STRONG HAVE BEEN DIRECT CONSUMER GOODS (UP 46.8 PERCENT BUT STILL ARE ONLY A SMALL FRACTION OF TOTAL IMPORTS), MACHINERY (41 PERCENT), TRANSPORTATION EQUIPMENT (34 PERCENT), CHEMICALS (39 PERCENT), IRON AND STEEL (36 PERCENT) AND ELECTRICAL EQUIPMENT (31.5 PERCENT).

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OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-07 CEA-01 L-03 H-02 PA-02 AGR-01 DOE-15
SOE-02 /142 W
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R 140820Z AUG 78
FM AMEMBASSY SEOUL
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6. DESPITE A $122 MILLION TRADE DEFICIT (FOB IMPORTS WERE $1,167 MILLION) THE CURRENT ACCOUNT SHOWED A SMALL $7 MILLION SURPLUS IN JULY, THANKS TO CONTINUED INFLOWS OF INVISIBLE RECEIPTS AND NET TRANSFERS. NET LONG-TERM CAPITAL INFLOWS WERE $153 MILLION, WHILE SHORT-TERM CAPITAL OUTFLOWS CONTINUED ($81 MILLION) DURING THE MONTH. FOREIGN EXCHANGE HOLDINGS INCREASED SLIGHTLY BY $96 MILLION AND NOW STAND AT $4,294.

7. THE BALANCE OF PAYMENTS FOR THE FIRST SEVEN MONTHS SHOW A $361 MILLION CURRENT ACCOUNT DEFICIT ($802 MILLION TRADE DEFICIT) WITH NET LONG-TERM CAPITAL INFLOWS OF $998 MILLION GIVING A BASIC BALANCE OF $637 MILLION.

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SHORT-TERM CAPITAL HAVE A NET DEFICIT OF $1,195 MILLION
FOR THE PERIOD AND FOREIGN EXCHANGE RESERVES HAVE REMAINED
NEARLY UNCHANGED SINCE DECEMBER.

8. THERE WAS WELCOME NEWS REGARDING THE MONEY SUPPLY
WHICH FELL BY 1.2 PERCENT (2.5 PERCENT SEASONALLY ADJUSTED)
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AND NOW STANDS AT 4.3 PERCENT ABOVE DECEMBER 1977 AND
26.1 PERCENT FROM JULY OF LAST YEAR. THIS IS THE FIRST
TIME THAT THE MONEY SUPPLY HAS FALLEN BELOW THE 30 PERCENT
ANNUAL GROWTH RATE THIS YEAR. PRINCIPAL CONTRIBUTOR
TO THE DECELERATION OF MONETARY GROWTH HAS BEEN THE
GOVERNMENT SECTOR FOLLOWED BY A DECLINE IN NET FOREIGN
ASSETS. DOMESTIC CREDIT REMAINS STRONG, UP 26 PERCENT
SINCE DECEMBER AND 38 PERCENT SINCE JULY OF THE PREVIOUS
YEAR. GOVERNMENT FISCAL POLICY TO DATE SHOWS A SMALL
SURPLLS ON THE GENERAL BUDGET ACCOUNTS OFFSET BY
DEFICITS IN THE SPECIAL ACCOUNTS AND FUNDS, PRIMARILY
THE GRAIN MANAGEMENT FUND, RESULTING IN AN OVERALL
DEFICIT OF 95 BILLION WON ($196 MILLION).

9. AS A RESULT OF THE INCREASES IN INTEREST RATES AND
A DAMPENING OF REAL ESTATE SPECULATION BY VARIOUS
GOVERNMENT MEASURES, TOTAL SAVINGS ROSE BY 44 PERCENT
IN JULY COMPARED TO THE PREVIOUS MONTH. LARGE GAINS
WERE ESPECIALLY PREVALENT FOR SAVINGS DEPOSITS AND IN
SECURITIES TRANSACTIONS AS SPECULATIVE FUNDS BEGAN TO
MOVE INTO THE STOCK MARKET.

10. PRICES REMAINED UNDER PRESSURE IN JULY; BUT IT
APPEARS THE RATES OF INCREASE ARE BEGINNING TO DECELERATE.
CONSUMER PRICES WERE UP 1.4 PERCENT IN JULY (1 PERCENT
SEASONALLY ADJUSTED) AND ARE 14.7 PERCENT ABOVE YEAR
EARLIER LEVELS (11.8 PERCENT SINCE DECEMBER). THE RATE
OF FOOD PRICE INCREASES WAS 1.6 PERCENT IN JULY COMPARED
TO THE 4.2 PERCENT RATE IN JUNE; THE LARGEST GAIN WAS
IN HOUSING COSTS (3.1 PERCENT) BECAUSE OF INCREASED
RENTS. OTHER ITEMS SHOWED NOMINAL INCREASES. WHOLESALE
PRICES WERE UP 0.4 PERCENT (1.1 PERCENT SEASONALLY
ADJUSTED) OVER JUNE AND SHOW A 7.8 PERCENT GROWTH RATE
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SINCE DECEMBER AND 11.7 PERCENT SINCE JULY OF LAST
YEAR. THE GOVERNMENT HAS SET NEW TARGETS OF 12 PERCENT
GROWTH RATES FOR WHOLESALE AND 14 PERCENT FOR CONSUMER

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PRICES FOR 1978. TO ATTAIN THESE GOALS PRICES WILL HAVE TO SHOW A DOWNWARD TENDENCY IN THE LAST FOUR TO FIVE MONTHS: POSSIBLE BUT NOT PROBABLE.

11. INDUSTRIAL PRODUCTION IN JUNE FELL 1.1 PERCENT (1.5 PERCENT SEASONALLY ADJUSTED) AND THE INDEX IS NOW 24.1 PERCENT (24 PERCENT SEASONALLY ADJUSTED OVER THE FIRST HALF OF 1977. DECLINES IN JUNE WERE REGISTERED BY TEXTILES, WOOD PRODUCTS, CHEMICALS AND PRIMARY METALS. THE FRENZIED PACE OF CONSTRUCTION ACTIVITY ALSO APPEARS TO HAVE LEVELED WITH TOTAL CONSTRUCTION PERMITS OFF 16.9 PERCENT IN JUNE LED BY COMMERCIAL (DOWN 34 PERCENT) AND HOUSING (19 PERCENT). PRELIMINARY JULY ESTIMATES FOR MAJOR CITY CONSTRUCTION SHOWS FURTHER ACCELERATION OF THIS TREND WITH TOTAL PERMITS DOWN BY 27 PERCENT. STRINGENT GOVERNMENT CONTROLS AND RECENT SPECULATION SCANDALS HAVE CONTRIBUTED TO DAMPEN THE ARDOR FOR REAL ESTATE, ALTHOUGH DEMAND AND SUPPLY, ESPECIALLY FOR HOUSING, REMAIN FAR APART.

12. THE TORRID PACE OF THE FIRST (GNP UP 15.8 PERCENT) AND SECOND QUARTERS (ESTIMATED AT ABOUT 14 PERCENT) COULD NOT LONG CONTINUE WITHOUT INFLATIONARY PRESSURES GETTING OUT OF CONTROL. THE ECONOMIC ADMINISTRATORS HAVE WISELY PUT ON THE BRAKES AND WE SHOULD SEE A CONTINUATION OF A DECELERATION IN GROWTH IN THE SECOND HALF. THE CONCERN OVER EXPORTS AT THIS TIME IS WORRISOME BUT NOT TROUBLESOME. AS OF THE FIRST TEN DAYS OF AUGUST EXPORTS STOOD AT $235 MILLION OR 21.4 PERCENT OF THE $1.1 BILLION TARGET, OR 5.5 PERCENT ABOVE AUGUST 1977. L/C ARRIVALS WERE UP 9.9 PERCENT. IT IS STILL PROBABLE THAT EXPORTS BY YEAR END WILL BE WITHIN 5 PERCENT OF THE $12.5 BILLION TARGET, BUT TRENDS IN THIS SECTOR WILL
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REQUIRE CLOSE MONITORING IN THE MONTHS AHEAD.
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Secure: OPEN
Status: NATIVE
Subject: INDICATORS SIGNALING SLOWDOWN?
TAGS: ECON, EFIN, ETRD, KS
To: STATE
Type: TE
vdkvgwkey: odbc://SAS/SAS.dbo.SAS_Docs/29eb0d64-c288-dd11-92da-001cc4696bcc
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